

CITY OF DUNKERTON
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2011

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CITY OF DUNKERTON

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael Schares	Mayor	Jan. 2012
D.J. Manahl	Mayor Pro-tem	Jan. 2012
Tom Bagby	Council Member	Jan. 2012
Thomas DeLong	Council Member	Jan. 2012
Elizabeth Downs	Council Member	Jan. 2012
Richard Ede	Council Member	Jan. 2012
Brenda Thompson	Clerk	Indefinite
Helen Steffen	Treasurer	Resigned Oct. 2010
Jessica Peters	Treasurer	Indefinite
Carter Stevens	Attorney	Indefinite

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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Elkader, Iowa 52043

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Dunkerton, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Dunkerton's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As permitted by the Code of Iowa, the basic financial statements of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2010.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements referred to above include only the primary government of the City of Dunkerton, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the

City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Dunkerton as of June 30, 2011, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary if we had been able to verify the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2010, as discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the primary government of the City of Dunkerton as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 2, 2011 on our consideration of the City of Dunkerton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 14 and 31 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Dunkerton's primary government financial statements. Other supplementary information included

in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the cash balances at July 1, 2010, as it relates to Schedule 1, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Elkader, Iowa

September 2, 2011

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City of Dunkerton

The City of Dunkerton provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements which follow. However, keep in mind that Chapter 11 of the Code of Iowa requires the City to have an audit of its basic financial statements once every four years because the City's population is between 700 and 2,000. Therefore, any financial information presented herein for the fiscal year ended June 30, 2010 has not been audited.

2011 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 16.0%, or approximately \$ 128,000 from fiscal year 2010 to fiscal year 2011. Property tax increased approximately \$ 53,000 and capital grants, contributions and restricted interest increased approximately \$ 288,000.

Disbursements of the City's governmental activities increased 6.4%, or approximately \$ 63,000 in fiscal year 2011 from fiscal year 2010. Public safety, public works, and capital projects disbursements increased approximately \$ 36,000, \$ 2,000 and \$ 165,000, respectively.

The City's total cash basis net assets decreased 28.6%, or approximately \$ 225,000, from June 30, 2010 to June 30, 2011. Of this amount the assets of the governmental activities decreased approximately \$ 67,000 and the assets of the business type activities decreased approximately \$ 158,000.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases and decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental Funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Local Option Sales Tax, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately \$ 351,000 to approximately \$ 285,000. The analysis that follows focuses on the changes in cash basis net assets for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

	Years Ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service	\$ 122	113
Operating grants, contributions and restricted interest	113	118
Capital grants, contributions and restricted interest	343	55
General receipts:		
Property tax	250	197
Local option sales tax	90	92
Unrestricted interest on investments	2	4
Note proceeds	-	205
Other general receipts	12	20
Total receipts	932	804
Disbursements:		
Public safety	224	188
Public works	129	127
Health and social services	3	-
Culture and recreation	61	66
Community and economic development	1	6
General government	49	69
Debt service	147	260
Capital projects	428	263
Total disbursements	1,042	979
Change in cash basis net assets before transfers	(110)	(175)
Transfers, net	43	26
Change in cash basis net assets	(67)	(149)
Cash basis net assets beginning of year	352	501
Cash basis net assets end of year	\$ 285	352

The City's total receipts for governmental activities increased 16.0% or approximately \$ 128,000. The total cost of all programs and services increased approximately \$ 63,000 or 6.4%, with the new library being completed during the year.

The approximate \$ 53,000 increase in property taxes was almost entirely due to a \$ 45,000 increase in tax increment financing collections. The remaining approximately \$ 8,000 increase in property taxes was due to tax askings for debt service.

The cost of all governmental activities this year was approximately \$ 1.042 million compared to approximately \$ 979,000 last year. However, as shown in the Statement of Activities and Net Assets on page 16, the amount taxpayers ultimately financed for these activities was only \$ 464,000 because some of the cost was paid by those directly benefited from the programs (\$ 122,000) or by other governments and organizations that subsidized certain programs with grants and contributions (\$ 456,000). Overall, the City's governmental activities program receipts, including inter-governmental aid and fees for service increased in fiscal year 2011 from approximately \$ 286,000 to approximately \$ 578,000, principally due to receiving \$ 344,000 in grants and contributions for the library in 2011.

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	Year Ended June 30,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 115	92
Sewer	56	75
General receipts:		
Unrestricted interest on investments	3	6
Note proceeds	-	360
Other general receipts	-	8
Total receipts	<u>174</u>	<u>541</u>
Disbursements:		
Water	240	911
Sewer	50	85
Total disbursements	<u>290</u>	<u>996</u>
Change in cash basis net assets before transfers	(116)	(455)
Transfers, net	<u>(43)</u>	<u>(26)</u>
Change in cash basis net assets	(159)	(481)
Cash basis net assets beginning of year	<u>437</u>	<u>918</u>
Cash basis net assets end of year	<u>\$ 278</u>	<u>437</u>

The business type activities receipts for the fiscal year were approximately \$ 174,000 compared to approximately \$ 541,000 last year. The decrease was due primarily to \$ 360,000 of notes being issued in 2010. The cash balance decreased approximately \$ 159,000. Total disbursements for the fiscal year decreased 70.9% to approximately \$ 290,000, as over 84% of a \$ 987,000 water improvement project was completed in 2010.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Dunkerton completed the year, its governmental funds reported a combined fund balance of \$ 285,144, a decrease of over \$ 66,000 below last year's total of \$ 351,515. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$ 55,175 from the prior year to \$ 182,790. Approximately \$ 45,000 was due to local option sales tax received this fiscal year. The City has committed \$ 25,000 of this to property tax relief, \$ 5,000 each to police and ambulance capital purchases and \$ 10,000 to fire capital purchases.

The Special Revenue, Local Option Sales Tax Fund increased \$ 3,751 to \$ 58,850. During the year \$ 45,000 was transferred to the General Fund, \$ 36,798 was transferred to the Debt Service Fund and \$ 4,315 was transferred to the Capital Projects Fund.

The Debt Service Fund cash balance increased from \$ (3,078) to \$ (23). Note principal and interest payments decreased from \$ 260,152 to \$ 147,405 in fiscal 2011.

The Capital Projects Fund cash balance decreased \$ 77,091 to \$ 2,908 in fiscal 2011. Disbursements for the year totaled \$ 427,460, most of which was for the completion of the new library.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Water Fund cash balance decreased \$ 165,664 to \$ 88,071, due primarily to \$ 154,215 being disbursed for completion of the water improvement project started in the previous fiscal year.

The Enterprise, Sewer Fund cash balance increased \$ 6,957 to \$ 189,989.

BUDGETARY HIGHLIGHTS

During the year, the City amended its budget once. The amendment was approved May 23, 2011 to provide for additional disbursements in various city departments of \$ 368,940. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$ 460 less than budgeted.

The City's disbursements were \$ 109,413 less than budgeted.

DEBT ADMINISTRATION

At June 30, 2011, the City had \$ 1,460,000 in long-term debt outstanding, compared to \$ 1,547,500 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2011	2010
General obligation notes	\$ 1,430	1,510
Contingency fund loan	30	38
Total	<u>\$ 1,460</u>	<u>1,548</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$ 1,460,000 is significantly below its constitutional debt limit of approximately \$ 2.3 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Dunkerton's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees charged for various City activities.

The City experienced a 13.8% increase in population between 2000 and 2010 increasing 103 to 852. This should mean an increase in local option sales and road use tax receipts. Property valuations increased approximately \$ 75,000 between January 1, 2009 and January 1, 2010.

These indicators were taken into account when adopting the budget for fiscal year 2012. Amounts available for appropriation in the operating budget are approximately \$ 778,000, a decrease of 29% under the final fiscal

year 2011 budget. A decrease in library contributions and grants accounts for most of this decrease. Budgeted disbursements are expected to decrease approximately \$ 497,000. Completion of the new library in 2011 accounts for most of the decrease.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$ 167,000 by the close of fiscal year 2012.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact Brenda Thompson, City Clerk, 200 East Tower Street, Dunkerton, Iowa 50626-0100.

BASIC FINANCIAL STATEMENTS

Exhibit A

CITY OF DUNKERTON
STATEMENT OF ACTIVITIES AND NET ASSETS-CASH BASIS
As of and for the Year Ended June 30, 2011

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:						
Governmental activities:						
Public safety	\$ 224,374	77,367	21,241	(125,766)	-	(125,766)
Public works	128,909	30,145	89,808	(8,956)	-	(8,956)
Health and social services	2,855	-	-	(2,855)	-	(2,855)
Culture and recreation	60,969	13,936	1,461	(45,572)	-	(45,572)
Community and economic development	1,006	-	-	(1,006)	-	(1,006)
General government	48,655	678	-	(47,977)	-	(47,977)
Debt service	147,405	-	-	(147,405)	-	(147,405)
Capital projects	427,460	-	-	(84,152)	-	(84,152)
Total governmental activities	1,041,633	122,126	112,510	(463,689)	-	(463,689)
Business type activities:						
Water	239,855	115,674	-	-	(124,181)	(124,181)
Sewer	50,535	55,714	-	-	5,179	5,179
Total business type activities	290,390	171,388	-	(463,689)	(119,002)	(119,002)
Total	\$ 1,332,023	293,514	112,510			
General Receipts and Transfers:						
Property and other city tax levied for:						
General purposes						
Debt service				196,107	-	196,107
Tax increment financing				8,479	-	8,479
Local option sales tax				45,539	-	45,539
Unrestricted interest on investments				89,864	-	89,864
Miscellaneous				2,448	2,925	5,373
Sale of assets				2,251	-	2,251
Transfers				10,000	-	10,000
Total general receipts				42,630	(42,630)	-
Change in cash basis net assets				397,318	(39,705)	357,613
Cash balances beginning of year				(66,371)	(158,707)	(225,078)
Cash balances end of year				351,515	436,767	788,282
Cash Basis Net Assets:						
Restricted, expendable				\$ 285,144	278,060	563,204
Streets						
Debt service						
Unrestricted						
Total cash basis net assets				\$ 285,144	278,060	563,204

See notes to financial statements.

CITY OF DUNKERTON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2011

Exhibit B

	General	Special Revenue Local Option Sales Tax	Debt Service	Capital Projects	Nonmajor	Total
Receipts:						
Property tax	\$ 196,107	-	8,479	-	-	204,586
Tax increment financing	-	-	-	-	45,539	45,539
Other city tax	-	89,864	-	-	-	89,864
Licenses and permits	565	-	-	183	-	565
Use of money and property	3,308	-	-	98,000	74,955	3,491
Intergovernmental	86,923	-	-	-	-	259,878
Charges for service	61,791	-	-	-	-	61,791
Miscellaneous	11,126	-	-	245,792	-	256,918
Total receipts	359,820	89,864	8,479	343,975	120,494	922,632
Disbursements:						
Operating:						
Public safety	194,324	-	-	-	30,050	224,374
Health and social services	47,109	-	-	-	81,800	128,909
Culture and recreation	2,855	-	-	-	-	2,855
Community and economic development	60,969	-	-	-	-	60,969
General government	1,006	-	-	-	-	1,006
Debt service	48,655	-	-	-	-	48,655
Capital projects	-	-	147,405	427,460	-	147,405
Total disbursements	354,918	-	147,405	427,460	111,850	427,460
Excess (deficiency) of receipts over (under) disbursements	4,902	89,864	(138,926)	(83,485)	8,644	(119,001)
Other financing sources:						
Sale of capital assets	10,000	-	-	-	-	10,000
Operating transfers in	45,345	-	141,981	6,394	-	193,720
Operating transfers out	(5,072)	(86,113)	-	-	(59,905)	(151,090)
Total other financing sources (uses)	50,273	(86,113)	141,981	6,394	(59,905)	52,630
Net change in cash balances	55,175	3,751	3,055	(77,091)	(51,261)	(66,371)
Cash balances beginning of year	127,615	55,099	(3,078)	79,999	91,880	351,515
Cash balances end of year	\$ 182,790	58,850	(23)	2,908	40,619	285,144
Cash Basis Fund Balances						
Restricted	\$ -	58,850	-	2,908	40,619	102,377
Committed	54,610	-	-	-	-	54,610
Unassigned	128,180	-	(23)	-	-	128,157
Total cash basis fund balances	\$ 182,790	58,850	(23)	2,908	40,619	285,144

See notes to financial statements.

CITY OF DUNKERTON
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 PROPRIETARY FUNDS
 As of and for the Year Ended June 30, 2011

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 113,478	55,514	168,992
Miscellaneous	2,196	200	2,396
Total operating receipts	115,674	55,714	171,388
Operating disbursements:			
Business type activities	85,640	50,535	136,175
Excess of operating receipts over operating disbursements	30,034	5,179	35,213
Non-operating receipts (disbursements):			
Interest on investments	997	1,928	2,925
Capital projects	(154,215)	-	(154,215)
Net non-operating receipts (disbursements)	(153,218)	1,928	(151,290)
Excess (deficiency) of receipts over (under) disbursements	(123,184)	7,107	(116,077)
Operating transfers out	(42,480)	(150)	(42,630)
Net change in cash balances	(165,664)	6,957	(158,707)
Cash balances beginning of year	253,735	183,032	436,767
Cash balances end of year	\$ 88,071	189,989	278,060
 Cash Basis Fund Balances			
Unrestricted	\$ 88,071	189,989	278,060

See notes to financial statements.

CITY OF DUNKERTON

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

The City of Dunkerton is a political subdivision of the State of Iowa located in Black Hawk County. It was first incorporated in 1899 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

Except as discussed below for financial reporting purposes, the City of Dunkerton has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

Excluded Component Units

The Dunkerton Volunteer Fire Association, Inc.; the Dunkerton EMS Association, Inc.; and Friends of the Dunkerton Public Library, Inc. were established under Chapter 504 of the Code of Iowa, and are legally separate from the City, but have the potential to provide specific benefits to or impose specific financial burdens on the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Black Hawk County Assessor's Conference Board, Black Hawk County Emergency Management Commission, and Black Hawk County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City's primary government. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's primary government nonfiduciary net assets. Net assets are reported in the following categories/components:

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

Local Option Sales Tax Fund is used to account for the voter approved 1% local option sales tax and ensure that it is disbursed in accordance with the approved referendum.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is utilized to account for receipts and disbursements to construct a new library and park shelter.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Dunkerton maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial

statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

When a disbursement in governmental funds can be paid using restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts which can be used for specific purposes pursuant to constraints formally imposed by the Council through ordinance or resolution approved prior to year end.

Unassigned - All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides

for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Cash Basis Fund Balances

The detail of the Governmental Funds, Cash Basis Fund Balances is as follows:

	General Fund	Local Option Sales Tax Fund	Debt Service Fund	Capital Projects Fund	Others Funds	Total
Fund balances:						
Restricted for:						
Streets	\$ -	-	-	-	15,543	15,543
Debt service	-	-	-	-	25,076	25,076
Other purposes	-	58,850	-	2,908	-	61,758
Committed for:						
Police acquisitions	7,568	-	-	-	-	7,568
Ambulance acquisitions	10,032	-	-	-	-	10,032
Fire Department acquisitions	34,871	-	-	-	-	34,871
Park acquisitions	2,139	-	-	-	-	2,139
Unassigned	128,180	-	(23)	-	-	128,157
Total Fund balances	\$ 182,790	58,850	(23)	2,908	40,619	285,144

(4) Notes Payable

Annual debt service requirements to maturity for general obligation notes are as follows:

Year Ending June 30,	General Obligation Notes		Contingency Fund Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 90,000	54,040	7,500	-	97,500	54,040
2013	95,000	51,640	7,500	-	102,500	51,640
2014	95,000	49,140	7,500	-	102,500	49,140
2015	95,000	46,640	7,500	-	102,500	46,640
2016	95,000	43,640			95,000	43,640
2017-2021	530,000	163,865			530,000	163,865
2022-2025	430,000	42,835			430,000	42,835
Total	\$ 1,430,000	451,800	30,000	-	1,460,000	451,800

Urban Renewal Tax Increment General Obligation Notes

The City issued \$ 500,000 of general obligation notes in May 2009 for the purpose of defraying a portion of the cost of a water improvement project and \$ 205,000 of general obligation notes in April 2010 for the purpose of defraying a portion of the cost of constructing the new library. Although the notes are a general obligation of the City, the City intends to pay the notes solely from the TIF receipts generated by increased property values in the City's TIF district and credited to the Special Revenue, Urban Renewal Tax Increment Fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100% of the debt service requirements over the life of the notes. The proceeds of the urban renewal tax increment financing general obligation notes shall be expended only for the purposes which are consistent with the plans of the City's urban renewal area. Total principal and interest remaining on the notes is \$ 849,360 payable through June 2025. For the current year, interest paid and total TIF receipts were \$ 26,655 and \$ 45,539, respectively.

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit

pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2011 were \$ 13,464, equal to the required contributions for the year.

(6) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 2 active and no retired members in the plan.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$ 1,121 for family coverage and \$ 1,367 for employee and spouse. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed \$ 28,888 and plan members eligible for benefits contributed \$ 960 to the plan.

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and paid time off (PTO) hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned paid time off and vacation hours payable to employees at June 30, 2011, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 4,900
Personal days	1,200
Comp time	<u>3,900</u>
Total	<u>\$ 10,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2011.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option Sales Tax	\$ 45,000
	Tax Increment Financing	<u>345</u>
		<u>45,345</u>
Debt Service	General	2,993
	Special Revenue:	
	Local Option Sales Tax	36,798
	Tax Increment Financing	59,560
	Enterprise:	
	Water	42,480
	Sewer	<u>150</u>
		<u>141,981</u>
Capital Projects	General	2,078
	Special Revenue:	
	Local Option Sales Tax	<u>4,315</u>
		<u>6,393</u>
Total		<u>\$ 193,719</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(9) Related Party Transactions

The City had business transactions between the City and City officials totaling \$ 2,254 during the year ended June 30, 2011.

(10) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 645 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 150 percent of the total current member's basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2011 were \$ 20,492.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to

\$ 350,000 per claim. Claims exceeding \$ 350,000 are reinsured in an amount not to exceed \$ 2,650,000 per claim. For members requiring specific coverage from \$ 3,000,000 to \$ 12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$ 150,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2011, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with flood damage to contents of the old library in the amount of \$ 15,800 and the City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Deficit Balance

The Debt Service Fund had a deficit balance of \$ 23 at June 30, 2011. The deficit will be eliminated with transfers.

(12) Commitments

The City let a contract for concrete work in May 2011 for \$ 39,360.

It is anticipated that this contract will be paid from the Special Revenue, Road Use Tax Fund.

In March 2011, the City purchased a new John Deere tractor with mower and snow blower for \$ 24,341. They received a trade-in allowance of \$ 10,514 for its 2007 John Deere tractor, leaving a final amount due of \$ 13,827 which will be paid July, 2011.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF DUNKERTON
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS)-ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2011

	Governmental Funds		Proprietary Funds		Total	Budgeted Amounts		Final to Total Variance
	Actual		Actual			Original	Final	
Receipts:								
Property tax	\$ 204,586	-	-	-	204,586	202,428	202,428	2,158
Tax increment financing	45,539	-	-	-	45,539	46,000	46,000	(461)
Other city tax	89,864	-	-	-	89,864	93,014	93,014	(3,150)
Licenses and permits	565	-	-	-	565	595	665	(100)
Use of money and property	3,491	2,925	-	-	6,416	6,005	6,005	411
Intergovernmental	259,878	-	-	-	259,878	226,902	247,662	12,216
Charges for service	61,791	168,992	-	-	230,783	232,925	239,005	(8,222)
Miscellaneous	256,918	2,396	-	-	259,314	240,235	262,626	(3,312)
Total receipts	922,632	174,313	1,096,945	1,048,104	1,097,405			(460)
Disbursements:								
Public safety	224,374	-	-	-	224,374	210,978	252,491	28,117
Health and social services	128,909	-	-	-	128,909	138,058	138,058	9,149
Culture and recreation	2,855	-	-	-	2,855	795	2,855	-
Community and economic development	60,969	-	-	-	60,969	65,219	69,245	8,276
General government	1,006	-	-	-	1,006	-	1,007	1
Debt service	48,655	-	-	-	48,655	66,675	66,675	18,020
Capital projects	147,405	-	-	-	147,405	106,247	147,405	41,158
Business type activities	427,460	-	-	-	427,460	302,500	427,461	1
Total disbursements	1,041,633	290,390	1,332,023	1,072,496	1,441,436			109,413
Deficiency of receipts under disbursements	(119,001)	(116,077)	(235,078)	(24,392)	(344,031)			108,953
Other financing sources, net	52,630	(42,630)	10,000	-	-			10,000
Deficiency of receipts and other financing sources under disbursements and other financing uses	(66,371)	(156,707)	(225,078)	(24,392)	(344,031)			118,953
Balances beginning of year	351,515	436,767	788,282	691,043	691,043			97,239
Balances end of year	\$ 285,144	\$ 278,060	\$ 563,204	\$ 666,651	\$ 347,012			\$ 216,192

See accompanying independent auditor's report and notes to required supplementary information - budgetary reporting.

CITY OF DUNKERTON
Notes to Required Supplementary Information - Budgetary Reporting
June 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$ 368,940. The budget amendment is reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

CITY OF DUNKERTON
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 As of and for the Year Ended June 30, 2011

	Special Revenue			
	Road Use Tax	Urban Renewal Tax Increment	Rebuild Iowa	Total
Receipts:				
Tax increment financing	\$ -	45,539	-	45,539
Intergovernmental	74,955	-	-	74,955
Total receipts	74,955	45,539	-	120,494
Disbursements:				
Operating:				
Public safety	-	-	30,050	30,050
Public works	81,800	-	-	81,800
Total disbursements	81,800	-	30,050	111,850
Excess (deficiency) of receipts over (under) disbursements	(6,845)	45,539	(30,050)	8,644
Other financing uses:				
Operating transfers out	-	(59,905)	-	(59,905)
Net change in cash balances	(6,845)	(14,366)	(30,050)	(51,261)
Cash balances beginning of year	22,388	39,442	30,050	91,880
Cash balances end of year	\$ 15,543	25,076	-	40,619
Cash Basis Fund Balances:				
Restricted for:				
Streets	\$ 15,543	-	-	15,543
Debt service	-	25,076	-	25,076
Total cash basis fund balances	\$ 15,543	25,076	-	40,619

See accompanying independent auditor's report.

CITY OF DUNKERTON
SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2011

Schedule 2

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
General obligation notes:								
Water	May 14, 2009	3.00-4.80%	\$ 995,000	945,000	-	50,000	895,000	37,190
Water and Library	Apr 8, 2010	2.00-4.15	565,000	565,000	-	30,000	535,000	21,740
Total				\$ 1,510,000	-	80,000	1,430,000	58,930
Contingency fund loan:								
City Hall	Jul 10, 2000	None	\$ 112,500	37,500	-	7,500	30,000	-

See accompanying independent auditor's report.

CITY OF DUNKERTON
NOTE AND LOAN MATURITIES
June 30, 2011

Year Ending June 30,	General Obligation Notes				
	Water		Water and Library		
	Issued May 14, 2009		Issued Apr 8, 2010		
	Interest Rates	Amount	Interest Rates	Amount	Total
2012	3.00%	\$ 60,000	2.00%	\$ 30,000	90,000
2013	3.00	60,000	2.00	35,000	95,000
2014	3.00	60,000	2.00	35,000	95,000
2015	3.25	60,000	3.00	35,000	95,000
2016	3.50	60,000	3.00	35,000	95,000
2017	3.75	60,000	3.00	35,000	95,000
2018	4.00	70,000	3.70	35,000	105,000
2019	4.25	70,000	3.70	35,000	105,000
2020	4.40	70,000	3.70	40,000	110,000
2021	4.50	75,000	4.15	40,000	115,000
2022	4.60	80,000	4.15	45,000	125,000
2023	4.70	80,000	4.15	45,000	125,000
2024	4.80	90,000	4.15	45,000	135,000
2025		-	4.15	45,000	45,000
Total		<u>\$ 895,000</u>		<u>\$ 535,000</u>	<u>1,430,000</u>

Year Ending June 30,	Contingency Fund Loan	
	City Hall	
	Issued Jul 10, 2000	
	Interest Rates	Amount
2012	0.00%	\$ 7,500
2013	0.00	7,500
2014	0.00	7,500
2015	0.00	7,500
Total		<u>\$ 30,000</u>

See accompanying independent auditor's report.

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Dunkerton, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated September 2, 2011. Our report on the primary government financial statements, which were prepared in conformity with an other basis of accounting, expressed qualified opinions since we were not able to satisfy ourselves as to the distribution by activity of the cash basis net assets and by fund of the cash balances at July 1, 2010. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Dunkerton's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Dunkerton's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Dunkerton's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses

and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City of Dunkerton's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-11 and I-B-11 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Dunkerton's primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Dunkerton's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Dunkerton's responses and, accordingly, we express no opinion on them.

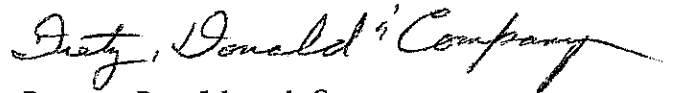
This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Dunkerton

and other parties to whom the City of Dunkerton may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Dunkerton during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

September 2, 2011

A handwritten signature in cursive script that reads "Dietz, Donald & Company". The signature is written in dark ink and is positioned above the printed name of the company.

Dietz, Donald and Company
FEIN 42-1172392

CITY OF DUNKERTON
SCHEDULE OF FINDINGS
Year Ended June 30, 2011

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-11 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual may have control over the following areas:

- (1) Cash - initiating cash receipts and disbursement transactions and handling and recording cash.
- (2) Long-term debt - recording and reconciling.
- (3) Receipts - collecting, depositing, journalizing, posting and reconciling.
- (4) Disbursements - preparing, recording and reconciling.
- (5) Payroll - preparing and distributing.
- (6) Accounting system - performing all general accounting functions and having custody of assets.
- (7) Computer usage - performing all general accounting functions, preparation of journal entries and controlling data input and output.

Recommendations - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. The City should utilize current personnel and officials to the extent possible to provide additional control through review of financial transactions, reconciliations and reports. Such independent reviews should be performed by an independent individual(s) and should be evidenced by initials or signature of the reviewer and date of the review.

CITY OF DUNKERTON
SCHEDULE OF FINDINGS
Year Ended June 30, 2011

Response - We currently use the Treasurer and mayor for various review and reconciliation procedures. We will continue to investigate further ways to improve internal control.

Conclusion - Response acknowledged. The City has made good use of existing personnel and hopefully with heightened awareness can find additional ways to improve internal control.

I-B-11 Financial Reporting - As is common in small organizations, the City does not prepare its financial statements, complete with notes, in accordance with U.S. generally accepted accounting principles. Accordingly, the City is unable to, and has not established internal controls over the preparation of financial statements.

Recommendation - As part of the audit, we have been requested to prepare a draft of the City's financial statements, including related notes to the financial statements. The City then performs a review of the financial statements. However, in order to provide improved oversight of the financial preparation services and implement controls over the financial reporting process the City should establish review policies and procedures including the performance of some or all of the following functions:

Review the adequacy of financial statement disclosures.

Review and approve schedules and calculations supporting amounts included in the notes to the financial statements.

Apply analytical procedures to the draft financial statements.

Apply other procedures as considered necessary by the City.

Response - As the City is only required to prepare complete financial statements once every four years, we will more than likely continue to use our auditor to prepare our financial statements, but we will look for ways to improve our review of the draft financial statements.

CITY OF DUNKERTON
SCHEDULE OF FINDINGS
Year Ended June 30, 2011

Conclusion - Response accepted.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-11 Certified Budget - Disbursements for the year ended June 30, 2011, did not exceed the amounts budgeted.

II-B-11 Questionable Disbursements - Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

Paid to	Purpose	Amount
Kwik Trip	Water, pop, donuts	\$ 104

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation - The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response - We will comply with this recommendation.

Conclusion - Response accepted.

II-C-11 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

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- II-D-11 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
D J Manahl, Mayor Pro-tem, employee of Rydell Chevrolet	Pick-up repairs	\$ 816
Tom Bagby, Council Member, owner of Bagby Repair	Equipment, street sweeper repairs	1,438

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transactions with the Mayor Pro-tem and Council Member do not appear to represent conflicts of interest since total transactions with each individual were less than \$ 2,500 during the fiscal year.

- II-E-11 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- II-F-11 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-11 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- II-H-11 Financial Condition - The Debt Service Fund had a deficit balance of \$ 23 at June 30, 2011.

Recommendation - The City should investigate alternatives to eliminate the deficit in order to return this fund to a sound financial position.

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Response - This deficit will be eliminated with fiscal 2012 tax receipts and transfers.

Conclusion - Response accepted.